

Consolidated Financial Statements
for the Third Quarter of the Fiscal Year Ending March 31, 2014 [J-GAAP]

February 4, 2014

NIPPON KANZAI Co., Ltd.

Listed Exchanges: Tokyo Stock Exchange, First Section
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Filing date of quarterly report: February 12, 2014
Date to start dividends distribution: —
Supplementary materials for quarterly results: None
Quarterly results briefing meeting held: None

*Amounts under one million yen have been rounded down.

1. Consolidated results for the third quarter ended December 31, 2013 (April 1, 2013 to December 31, 2013)

(1) Consolidated business results

(Percentage figures indicate the rate of change from the same period in the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2013	61,701	11.0	3,759	32.5	4,028	33.8
Nine months ended December 31, 2012	55,588	2.0	2,838	(4.0)	3,010	(4.9)

Note: Comprehensive income: Nine months ended December 31, 2013: ¥2,960 million (59.8%)
Nine months ended December 31, 2012: ¥1,852 million (14.0%)

	Net Income		Net Income per Share		Diluted Net Income per Share	
	Millions of yen	%	Yen		Yen	
Nine months ended December 31, 2013	2,361	36.4	140.22		—	
Nine months ended December 31, 2012	1,731	6.1	102.63		—	

(2) Consolidated financial position

	Total Assets		Net Assets		Equity Ratio	
	Millions of yen		Millions of yen		%	
As of December 31, 2013	49,509		30,679		58.5	
As of March 31, 2013	45,330		28,313		58.8	

Note: Shareholders' equity: As of December 31, 2013: ¥28,946 million
As of March 31, 2013: ¥26,671 million

2. Dividends

	Annual dividends				
	First Quarter-end	Second Quarter-end	Third Quarter-end	Year-end	Total
Fiscal year ended March 31, 2013	—	20.00	—	20.00	40.00
Fiscal year ending March 31, 2014	—	20.00	—		
Fiscal year ending March 31, 2014 (forecast)				20.00	40.00

Note: Revisions to the most recently announced forecast of cash dividends in the current quarter: None

3. Consolidated business forecasts for the fiscal year ending March 31, 2014 (April 1, 2013 to March 31, 2014)

(Percentage figures indicate the rate of change from the same period in the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	84,900	13.1	4,900	22.0	5,400	23.3	2,900	21.2	172.30

Note: Revisions to the most recently announced consolidated business forecasts in the current quarter: None

*** Notes**

(1) Changes of significant subsidiaries during the term (Changes in specific subsidiaries associated with changes in scope of consolidation): None

(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements:
None

(3) Changes in accounting policies, accounting estimates and restatement of revisions

- | | |
|---|------|
| 1) Changes in accounting policies due to revisions of accounting standards, etc.: | Yes |
| 2) Changes in accounting policies other than 1) above: | None |
| 3) Changes in accounting estimates: | None |
| 4) Restatement of revisions: | None |

(4) Number of shares issued and outstanding (common stock)

- 1) Number of shares issued and outstanding (including treasury stock)
- 2) Number of treasury stock
- 3) Average number of shares issued and outstanding

1)	As of December 31, 2013	20,590,153 shares	As of March 31, 2013	20,590,153 shares
2)	As of December 31, 2013	3,702,687 shares	As of March 31, 2013	3,780,794 shares
3)	First nine months ended December 31, 2013	16,842,612 shares	First nine months ended December 31, 2012	16,874,156 shares

*** Presentation of implementation status for quarterly review procedures**

This quarterly financial report is not covered by the Financial Instruments and Exchange Act and the quarterly consolidated financial statements review procedures called for by the Financial Instruments and Exchange Act have not been completed as of the release of this quarterly financial report.

*** Explanation regarding the appropriate use of business forecasts and other notes**

The business forecasts reported herein were prepared based on information Nippon Kanzai had in its possession as of the time this report was prepared and on certain assumptions judged to be reasonable. Actual results may differ significantly from forecasts due to various factors. Please refer to the disclaimers, provided under "1. (3) Explanation regarding information on future forecasts including consolidated business forecasts, etc." on page 3 of the Attached Document of this quarterly financial report, regarding assumptions upon which forecasts are based and the use of forecasts.

Table of Contents for the Attached Document

1. Qualitative information on financial statements	2
(1) Explanation regarding business results	2
(2) Explanation regarding financial position	3
(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.	3
2. Supplement to summary information (Notes).....	3
(1) Changes of significant subsidiaries during the term	3
(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements	3
(3) Changes in accounting policies, accounting estimates and restatement of revisions.....	3
3. Quarterly consolidated financial statements	4
(1) Quarterly consolidated balance sheets	4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.....	6
Quarterly consolidated statements of income	6
Quarterly consolidated statements of comprehensive income.....	8
(3) Notes on quarterly financial statements	9
(Notes on a going concern assumption).....	9
(Notes on significant changes in the amount of shareholders' equity)	9
(Segment information).....	9

1. Qualitative information on financial statements

(1) Explanation regarding business results

During the first nine months of the fiscal year ending March 31, 2014, the Japanese economy showed some signs of recovery such as the depreciation of the Japanese yen and the rise in stock prices backed by public expectations for monetary and fiscal policies led by the government. However, the economic outlook still remains uncertain due to some concerns including a rise in imported raw material prices caused by the weaker yen and a slowdown in consumer spending expected after the consumption tax hike.

In the real estate service industry, severe business conditions continue as clients remain highly cost-conscious and contracted buildings have been closed or decreased their services, although a slight improvement is seen in the office and commercial building vacancy rate.

In such business environment, the Nippon Kanzai Group (NIPPON KANZAI Co., Ltd. and its consolidated subsidiaries) continued to expand its area of businesses around the building maintenance business. The Group also made efforts in proactive business development by enhancing its property management business in home and overseas markets, private finance initiatives (PFI), and energy-saving business and making the best of the Group companies' strengths.

Consolidated net sales for the first nine months rose by 11.0% year on year to 61,701 million yen supported by steady receipt of new contracts and construction-related orders, in addition to the contribution of the results of NJK Holding K.K. (including its three subsidiaries), which became a new consolidated subsidiary of the Company.

Although profitability was influenced by a sluggish growth in price per contract, we continued to make efforts to improve profitability by conducting a thorough review of procurement unit prices and better time management and cutting and restraining administrative costs. As a result, the Group achieved substantial increases in income year-on-year and recorded operating income of 3,759 million yen, up 32.5% year on year, ordinary income of 4,028 million yen, up 33.8%, and quarterly net income of 2,361 million yen, up 36.4%.

The following are earnings by segment.

Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

(Building Management and Operation Business)

In our core Building Management and Operation Business, which includes building management and security services, we enjoyed steady receipt of new contracts for real estate services in addition to the contribution of the results of the new consolidated subsidiary mentioned above. As a result, net sales for the first nine months increased by 10.2% year on year to 53,138 million yen.

Segment income was 5,583 million yen, up 17.8% year on year, due to successful efforts to review subcontracting consignment expenses and to cut administrative costs overcoming a sluggish growth in price per contract and other factors.

(Environmental Facility Management Business)

In the Environmental Facility Management Business, which mainly comprises the management of water treatment, sewage disposal and other public facilities, we secured an overall firm number of renewal of existing contracts, particularly for the management of incinerators and recycling facilities. In addition, certain operation management contracts were changed to comprehensive contracts for the operation management of the entire facility, which resulted in an increase in the contractual amount. As a result, net sales for the segment increased by 9.6% year on year to 6,379 million yen for the first nine months of the fiscal year ending March 31, 2014.

Although local governments – the main customers for this segment – continued to be on a tight budget, the Group has worked to reduce costs, focusing on efforts to rein in start-up costs for newly contracted facilities, re-examine procurement costs, and realign personnel assignments to better match actual needs. As a result, segment income was 603 million yen, up 10.3% year on year.

(Real Estate Fund Management Business)

In the Real Estate Fund Management Business, which mainly comprises asset management business (i.e. composition and asset management of real estate funds) and handling investments in silent partnership, a stable asset management income and gains on sales of assets were recorded. As a result, net sales for the segment increased by 201.7% year on year to 1,123 million yen for the first nine months of the fiscal year ending March 31, 2014.

While expenses related to sales of assets increased, with the help of our efforts in expense reductions and improvements in operational efficiency, segment income was 117 million yen, up 23.2% year on year.

(Other Businesses)

Other Businesses, which mainly consist of event planning and management, printing and design, saw a decrease in orders for temporary event operations due to a downsizing of events, and impacts from cost-cutting measures by clients. For the first nine months of the fiscal year ending March 31, 2014, therefore, net sales decreased by 10.7% year on year to 1,060 million yen, and segment loss was 33 million yen.

(2) Explanation regarding financial position

Total assets at the end of the third quarter of the current fiscal year increased by 4,178 million yen or 9.2% from the previous fiscal year end to 49,509 million yen mainly due to the increases in noncurrent assets and goodwill of the new consolidated subsidiary.

Liabilities increased by 1,812 million yen or 10.6% from the previous fiscal year end to 18,829 million yen mainly due to increase in loans payable.

Net assets increased by 2,366 million yen or 8.4% year on year to 30,679 million yen as the positive effect of the recording of quarterly net income outweighed cash dividends paid and decreases in foreign currency translation adjustment. As a result, equity ratio as of December 31, 2013 decreased by 0.3 percentage points to 58.5% from the previous fiscal year end.

(3) Explanation regarding information on future forecasts including consolidated business forecasts, etc.

We expect that our business environment will continue to be in an unpredictable situation. However, aiming at further business expansion, the Group acquired shares in NJK Holding K.K. and its three subsidiaries on June 4, 2013 and the companies became our consolidated subsidiaries.

With respect to our full-year consolidated business forecasts, there has been no change since the revision of the forecasts announced on November 7, 2013.

2. Supplement to summary information (Notes)

(1) Changes of significant subsidiaries during the term

As a result of the acquisition of shares in NJK Holding K.K. mentioned above, we include the company and its subsidiaries (Japan Housing Management Co., NJK Staff Service K.K., and Japan Housing Management Sapporo Co.) in the consolidation scope, although this does not fall under changes in specified subsidiaries.

Regarding the acquisition of shares, the Company acquired 50% of the voting rights on April 2, 2013 and the remaining 50% on June 4, 2013. Therefore, NJK Holding K.K. was accounted for as an equity method affiliate during the period from the initial acquisition through June 30, 2013, which is the deemed acquisition date pertaining to the control acquisition date.

(2) Adoption of specific accounting methods for preparation of the quarterly consolidated financial statements

Not applicable.

(3) Changes in accounting policies, accounting estimates and restatement of revisions

We have applied the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issue Task Force No. 30 issued on December 25, 2013) from the third quarter of the fiscal year ending March 31, 2014.

As a result, there was slight impact on our profit and loss during the said term: treasury stock increased by 83,793 thousand yen in net assets, and capital surplus increased by 81,675 thousand yen..

3. Quarterly consolidated financial statements**(1) Quarterly consolidated balance sheets**

	(Thousands of yen)	
	Fiscal year ended March 31, 2013 (As of March 31, 2013)	Third quarter ended December 31, 2013 (As of December 31, 2013)
ASSETS		
Current assets		
Cash and deposits	14,787,733	13,649,745
Notes and accounts receivable—trade	8,864,470	9,080,629
Investments in silent partnership for business purposes	301,440	294,966
Supplies	79,076	93,058
Real estate for sale	1,582,211	1,086,462
Income taxes receivable	1,719	1,251
Deferred tax assets	362,963	200,417
Other	856,627	1,752,243
Allowance for doubtful accounts	(12,783)	(15,046)
Total current assets	26,823,456	26,143,725
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,843,232	2,826,358
Machinery, equipment and vehicles, net	45,735	53,894
Tools, furniture and fixtures, net	254,225	351,948
Land	1,086,763	1,815,001
Lease assets, net	553,529	592,802
Construction in progress	267,266	—
Total property, plant and equipment	4,050,750	5,640,003
Intangible assets		
Telephone subscription right	34,790	45,467
Software	310,202	177,674
Goodwill	16,490	2,326,422
Lease assets	28,753	27,202
Other	—	15,238
Total intangible assets	390,235	2,592,003
Investments and other assets		
Investment securities	10,714,843	11,836,824
Long-term loans receivable	530,108	539,727
Long-term prepaid expenses	10,052	9,565
Lease and guarantee deposits	1,462,445	1,686,442
Membership	410,108	417,018
Deferred tax assets	183,193	190,549
Other	886,967	641,670
Allowance for doubtful accounts	(131,237)	(188,224)
Total investments and other assets	14,066,479	15,133,571
Total noncurrent assets	18,507,464	23,365,577
TOTAL ASSETS	45,330,920	49,509,302

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(Thousands of yen)

	Fiscal year ended March 31, 2013 (As of March 31, 2013)	Third quarter ended December 31, 2013 (As of December 31, 2013)
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	4,630,458	4,557,110
Short-term loans payable	—	1,100,000
Current portion of long-term loans payable	167,904	729,750
Current portion of long-term non-recourse loans payable	855,600	86,600
Lease obligations	199,519	225,563
Accrued expenses	2,054,411	2,812,524
Income taxes payable	665,746	506,404
Accrued consumption taxes	326,478	377,444
Deposits received	468,042	850,509
Advances received	48,440	431,039
Provision for bonuses	595,336	124,494
Provision for directors' bonuses	75,795	53,794
Asset retirement obligations	—	6,677
Other	81,828	56,011
Total current liabilities	10,169,557	11,917,919
Noncurrent liabilities		
Long-term loans payable	4,946,500	4,470,120
Lease obligations	392,973	409,036
Deferred tax liabilities	50,850	351,706
Provision for retirement benefits	324,346	457,308
Provision for directors' retirement benefits	481,849	556,654
Long-term guarantee deposited	372,162	378,036
Asset retirement obligations	225,570	214,651
Liabilities from application of equity method	30,992	50,821
Other	22,336	23,143
Total noncurrent liabilities	6,847,578	6,911,475
TOTAL LIABILITIES	17,017,135	18,829,394
NET ASSETS		
Shareholders' equity		
Capital stock	3,000,000	3,000,000
Capital surplus	498,800	594,288
Retained earnings	27,960,384	29,652,536
Treasury stock	(5,515,802)	(5,485,742)
Total shareholders' equity	25,943,382	27,761,082
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	728,296	1,543,413
Foreign currency translation adjustment	—	(358,178)
Total accumulated other comprehensive income	728,296	1,185,235
Minority interests	1,642,107	1,733,591
TOTAL NET ASSETS	28,313,785	30,679,908
TOTAL LIABILITIES AND NET ASSETS	45,330,920	49,509,302

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income**Quarterly consolidated statements of income**

(Thousands of yen)

	Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)	Nine months ended December 31, 2013 (April 1, 2013 to December 31, 2013)
Net sales	55,588,074	61,701,870
Cost of sales	45,107,848	49,608,353
Gross profit	10,480,226	12,093,517
Selling, general and administrative expenses		
Selling expenses	126,308	143,112
Personnel expenses	4,447,349	4,873,295
Provision for bonuses	24,883	96,694
Provision for directors' bonuses	54,100	54,044
Provision for directors' retirement benefits	53,490	63,350
Retirement benefit expenses	133,552	118,991
Transportation and communication expenses	637,190	669,989
Supplies expenses	245,573	287,331
Rent expenses	571,912	569,038
Insurance expenses	147,025	190,164
Depreciation	323,020	344,721
Taxes and dues	68,886	62,984
Enterprise tax	60,281	64,318
Provision of allowance for doubtful accounts	(2,283)	(2,705)
Amortization of goodwill	16,690	76,142
Other	733,716	722,201
Total selling, general and administrative expenses	7,641,692	8,333,669
Operating income	2,838,534	3,759,848
Non-operating income		
Interest and dividends income	128,371	146,554
Rent income	30,345	30,596
Equity in earnings of affiliates	37,355	164,988
Foreign exchange gains	—	74,250
Other	81,951	89,534
Total non-operating income	278,022	505,922
Non-operating expenses		
Interest expenses	22,838	114,616
Rent expenses	33,746	34,577
Loss on sales and retirement of noncurrent assets	26,323	34,313
Other	23,405	53,865
Total non-operating expenses	106,312	237,371
Ordinary income	3,010,244	4,028,399

(Thousands of yen)

	Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)	Nine months ended December 31, 2013 (April 1, 2013 to December 31, 2013)
Extraordinary loss		
Loss on valuation of investment securities	44,253	—
Loss on valuation of membership	7,010	1,640
Provision of allowance for doubtful accounts	850	454
Total extraordinary loss	52,113	2,094
Quarterly income before income taxes and minority interests	2,958,131	4,026,305
Income taxes — current	961,585	1,388,439
Income taxes — deferred	199,831	135,460
Total income taxes	1,161,416	1,523,899
Quarterly income before minority interests	1,796,715	2,502,406
Minority interests in income	64,847	140,800
Quarterly net income	1,731,868	2,361,606

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)	Nine months ended December 31, 2013 (April 1, 2013 to December 31, 2013)
Quarterly income before minority interests	1,796,715	2,502,406
Other comprehensive income		
Valuation difference on available-for-sale securities	55,788	815,800
Foreign currency translation adjustment	—	(358,178)
Total other comprehensive income	55,788	457,622
Quarterly comprehensive income	1,852,503	2,960,028
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,787,383	2,818,544
Comprehensive income attributable to minority interests	65,120	141,484

*English translation of some items has been changed to correspond with EDINET taxonomy published by FSA.

(3) Notes on quarterly financial statements**(Notes on a going concern assumption)**

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Segment information)**I Nine months ended December 31, 2012 (April 1, 2012 to December 31, 2012)****1. Information on net sales, and income or losses for each reportable segment**

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	48,206,219	5,821,188	372,309	1,188,358	55,588,074	—	55,588,074
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	48,206,219	5,821,188	372,309	1,188,358	55,588,074	—	55,588,074
Segment income (loss)	4,739,216	547,707	95,506	(56,323)	5,326,106	(2,487,572)	2,838,534

Notes: 1. Adjustments to segment income consist of (2,487,572) thousand yen in unallocated general administrative expenses.

2. Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

2. Information on impairment losses of noncurrent assets and goodwill for each reportable segment

Not applicable.

II Nine months ended December 31, 2013 (April 1, 2013 to December 31, 2013)**1. Information on net sales, and income or losses for each reportable segment**

(Thousands of yen)

	Reportable segment					Adjustments (Note 1)	Amount recorded on quarterly consolidated statements of income (Note 2)
	Building Management and Operation Business	Environmental Facility Management Business	Real Estate Fund Management Business	Other Businesses	Total		
Net sales							
Net sales to external customers	53,138,225	6,379,431	1,123,248	1,060,966	61,701,870	—	61,701,870
Inter-segment net sales and transfer	—	—	—	—	—	—	—
Total	53,138,225	6,379,431	1,123,248	1,060,966	61,701,870	—	61,701,870
Segment income (loss)	5,583,371	603,926	117,652	(33,599)	6,271,350	(2,511,502)	3,759,848

Notes: 1. Adjustments to segment income consist of (2,511,502) thousand yen in unallocated general administrative expenses.

2. Segment income (loss) has been adjusted to operating income described in quarterly consolidated statements of income.

2. Information on assets for each reportable segment

Assets by reportable segment for the first nine months have changed significantly from the previous fiscal year end as follows:

During the first three months of the fiscal year ending March 31, 2014, the Company acquired all shares in NJK Holding K.K. and included the company and its three subsidiaries in the consolidation scope. As a result, assets of the Building Management and Operation Business segment increased by 2,727,282 thousand yen.

3. Information on impairment losses of noncurrent assets and goodwill for each reportable segment

(Significant changes in the amount of goodwill)

During the first three months of the fiscal year ending March 31, 2014, the Company acquired all shares in NJK Holding K.K. and included the company and its three subsidiaries in the consolidation scope. As a result, goodwill of the Building Management and Operation Business segment increased.

Due to the acquisition, the amount of goodwill increased by 2,326,422 thousand yen during the first nine months of the fiscal year ending March 31, 2014.